SHOPPING CENTRE
COUNCIL OF AUSTRALIA

31 January 2017

The Value Capture Discussion Paper
Infrastructure Investment Division
Department of Infrastructure and Regional Development
GPO Box 594
CANBERRA ACT 2601

Via email: valuecapture@infrastructure.gov.au

Dear Sir/Madam

Discussion Paper: Using Value Capture to Help Deliver Major Land Transport Infrastructure: Roles for the Australian Government

Thank you for the opportunity to comment on the above Discussion Paper.

As the only group representing major shopping centre owners, managers and developers, and as a group which has had detailed involvement on relevant policy issues across the country in recent years, the Shopping Centre Council of Australia (SCCA) is uniquely placed to comment on the Discussion Paper.

One year ago, we provided the Government with our *Policy Position: Value Capture Funding* (**attached**), which provides a detailed explanation of a range of critical issues that need to be properly considered in relation to value capture funding. Our *Policy Position* also formed the cornerstone of our representations to the recent Parliamentary inquiry into the role of transport connectivity on stimulating development and economic activity.

Unfortunately, the Discussion Paper glosses over most of the legitimate issues we have raised.

In our view, the Paper is characterised by simplistic assumptions, generic analysis, and a series of unfounded 'truisms' regarding value capture. The Paper also reveals a limited understanding of aspects of state and local government policy, including with regard to existing infrastructure contribution frameworks.

At its most fundamental, the Paper asks readers to accept – almost without question - the initial, simplistic premise that transport infrastructure always, or inevitably, delivers value uplift.

The Paper then glosses over the extent to which governments at various levels already capture 'value' through the existing development and taxation process.

With respect to the authors of the Paper, it is clear that they have little understanding of or experience with asset and statutory valuation, asset and portfolio management, the impact and incidence of existing taxes, rates and charges, or development or redevelopment processes.

Statements like the following at section 4.1 of the Paper patronise a sector which knows in particular detail what impacts 'value' and the circumstances under which they may or may not experience a so-called 'benefit':

A key step in overcoming these objections is early engagement with beneficiaries through the planning and concept design phases of a project. This allows beneficiaries to better understand the benefits being generated by a project and assists in shaping the final design of a project to maximise potential benefits and the framework for capturing contributions. (pg. 24)

Put simply, a 'benefit' is not realised just because a government wishes it so as to recoup additional contributions from land owners.

Shopping centres are already heavily integrated with transport infrastructure such as train stations and bus interchanges. Some of these facilities sit on our members' land as a result of the mandatory imposition of development conditions.

As such, we have a good understanding of the relationship between transport infrastructure and shopping centres and, as such, are particularly concerned about the sweeping generalisations in the Paper made about "foot traffic" and "development opportunities for shopping centre operators" (pg. 9).

The Paper doubles down on this ill-conceived point, suggesting at section 2.3 that a charge could be imposed on businesses located near a new train station "on the basis that they will benefit from extra foot traffic generated by passengers travelling to and from the station and access to a larger labour pool" (pg. 14).

This claim is frighteningly simplistic. Further, the Paper provides no evidence to support this line of enquiry.

As is detailed in our *Policy Position*, we analysed a suburban train station near one of our members' centres in order to 'myth bust' this rationale which is frequently raised in value capture policy debates.

The beneficiaries of the analysed station (and many other stations) are drawn from a wider catchment than the immediate surrounding land-holdings. There is also a strong correlation between the peak periods for this station (being the 'a.m' and 'p.m' peak periods) and when the shopping centre (and retailers) are not open for trade.

Further, we are aware that the subject shopping centre has experienced growth in the impost of government taxes and charges which, overtime, has vastly outstripped its underlying valuation.

This shopping centre is also already subject to a specific car-park levy. This means that, despite the availability of public transport, the state Government still imposes a car-use charge.

As such, to suggest a "benefit" will accrue from "extra foot traffic" from a new train station is simplistic to say the least.

A similarly concerning proposition in the Discussion Paper is the claim about 'beneficiaries' of infrastructure being identified using a voting framework whereby a 'majority vote' would provide "powerful evidence that there is a benefit perceived by those who voted in favours" (pg. 28).

Aside from the fact that, in our case, a single shopping centre would be outvoted by a majority of residents, the suggestion that there is any correlation between the outcome of a vote and evidence of 'benefit' lacks credibility. This implies that the Government would be happy to impose additional charges in the absence of actual evidence that a benefit has accrued to a given party.

We can provide numerous examples at the 'local' level where such voting frameworks fail shopping centres owners because their legitimate interests are ignored, or outweighed by the majority residential interest. For example, shopping centres are already singled out and targeted for specific rate increases at the local government level in order to keep taxes lower for residential rate payers.

The Discussion Paper also cites some evidence, based on property transactions, that values have allegedly increased as a result of certain infrastructure projects. This analysis fails to acknowledge issues specific to our sector, including that shopping centres transact infrequently and that, consequently, statutory valuations for large shopping centres are not undertaken via a 'mass valuation' method similar to other properties (e.g. housing).

We will also take this opportunity to reiterate a fundamental concern that we have raised consistently over the last year: there is no credible method to properly isolate and quantify the contribution made by an infrastructure project, let alone a proposed future infrastructure project, to an asset's land value.

Value is driven by many factors beyond the mere presence of a piece of infrastructure. For example, we can point to a range of shopping centres close to transport infrastructure which have struggled in recent years due to factors such as the changing demographics of its catchment, which itself relates to factors including household income, household ownership and savings rates.

We would welcome an opportunity to discuss this submission, which includes our *Policy Position: Value Capture Funding*, with the Department.

To reference the claim made at section 4.1, the Government will not be able to "overcome" objections from our sector if we continue to be presented with simplistic and 'take it or leave it' assumptions and analysis on critical and fundamental issues such as valuation, taxation and planning.

Please do not hesitate to contact the SCCA's Deputy Director, Kristin Pryce, on 02 9033 1941 or kpryce@scca.org.au to discuss this letter.

Yours sincerely,

31-1-2017

Angus Nardi
Executive Director

SHOPPING CENTRE
COUNCIL OF AUSTRALIA

POLICY POSITION: VALUE-CAPTURE FUNDING

The Shopping Centre Council of Australia (SCCA) represents Australia's major owners, managers and developers of shopping centres across metropolitan, regional and rural areas (refer to www.scca.org.au). Our largest five members own and manage in excess of $75 billion in assets, covering 28,600 retailers and $53 billion in retail sales. Our members have a $10 billion investment and development pipeline over the next three years.

We are long-term advocates for productive and sustainable cities including integrated land-use and infrastructure planning.

'Value-capture' funding has been proposed as a so-called 'new' and 'innovative' method to fund infrastructure. While various models exist, we are concerned that 'value-capture' could simply result in yet another property tax and yet another tax where shopping centre owners carry a disproportionate tax burden.

This *SCCA Policy Position* summarises the critical issues, including 'fundamental' issues, we believe need to be properly considered and consulted on in relation to 'value-capture' funding.

The SCCA advocates on issues that relate to 'value-capture fundamentals' such as land valuation, planning, infrastructure and taxation. In our view, the public debate to date has largely been silent on these fundamentals and this *Policy Position* aims to provide useful policy insights on these issues.

The SCCA is well placed to be an informed and key contributor to this discussion and has a track record of providing unique, evidence-based and considered analysis and policy solutions.

1 INTRODUCTION

'Value-capture' has become the phrase *du jour* in recent public policy discussion about cities and infrastructure funding, followed by catchy concepts like 'value-sharing' and references to overseas models.

This approach has been mooted as a possible condition of Federal funding of infrastructure projects.

The basic logic is that an increase in land (or property) values that flow from infrastructure projects (e.g. roads and rail) should be captured, shared and tapped into as a funding (or revenue) stream.

While value-capture funding can take various forms, there is a real prospect it could become yet another property tax on: (1) existing assets (e.g. similar to land tax) and/or (2) new development (e.g. similar to infrastructure contributions). There have already been public references to "…charges on local properties…" making us concerned with the impact on commercial properties, including shopping centres and their retailers.

We find this prospect extraordinary, particularly considering the status of the national tax debate.

2 TEN CRITICAL ISSUES

We have observed different commentary and proposals on value-capture funding, some of which is extremely simplistic and concerning.

The following critical issues need to be considered in consulting, progressing and designing any proposed new scheme (discussed further below).

#1: Value is already 'captured' and taxed multiple times
#2: Value and valuation need to be properly understood
#3: Shopping centres already pay disproportionately high taxes
#4: Land-based taxes can distort investment and reduce asset value
#5: Developers already make infrastructure contributions + infrastructure should be linked to demand: not value
#6: 'Value-capture' catchment lacks alignment with actual users/beneficiaries
#7: Fair's fair – governments should pay fair value
#8: Governments should remove regulatory barriers to value
#9: Overseas examples are just that: overseas examples
#10: Other funding options

#1 – VALUE IS ALREADY 'CAPTURED' AND TAXED MULTIPLE TIMES

A shopping centre's value – whether it's statutory value (which includes land value for land tax in all states and council rates for NSW and Queensland, and improved value for council rates in Victoria, SA and WA) or market value - is already captured, taxed and 'shared' multiple times by Australia's Governments. This includes capturing the value of any infrastructure projects. Taxes include land tax, local council rates and fire and emergency services levies (and even water pricing).

The statutory valuation basis of such taxes is also controlled by Government policies generally administered by the relevant Valuers-General. This is a further regulatory risk for shopping centre companies.

Shopping centres are also extremely productive assets and significant generators of GST through retail sales. Australia's Top 10 shopping centres account for $9.5 billion in retail turnover. It is the investment of shopping centre companies and their retailers that allows the creation of these GST collection hubs.

TYPICAL LARGE SHOPPING CENTRE

(Source: Flaticon.com)

SNAPSHOT: VALUE ALREADY TAXED

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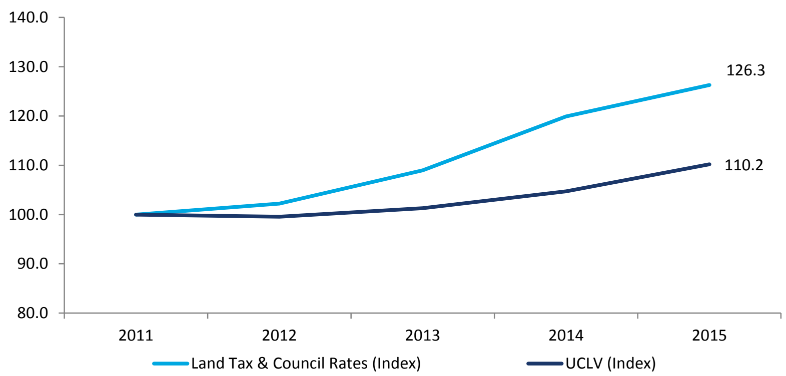
→ **Land value: $44 MILLION**
Land tax: $970,000
Council rates: $2.7 million
Fire Services Levy: $190,000

→ **Moving Annual Turnover (Retail Sales): $465 million**
GST estimation: $18 million

In recent years, the tax take from land value based taxes for shopping centres has also outstripped the growth in land valuation, meaning that shopping centres are being taxed more than their 'fair share'.

SCCA Sample Pool Land Tax & Council Rates vs. Land Value
Index of Total Value 2011 to 2015



Source: SCCA Member Data

#2 – VALUE AND VALUATION NEED TO BE PROPERLY UNDERSTOOD

Shopping centre value is driven by shopping centre companies, and every day is spent managing risk and driving value in their assets. This can also be the catalyst to help drive value in surrounding properties. Value and valuation also isn't a simplistic concept for shopping centres and for this reason, shopping centres are generally treated as specialised asset classes for statutory valuation purposes. The general or mass valuation approach of residential property certainly can't be applied to shopping centres, nor could a generic value-capture model.

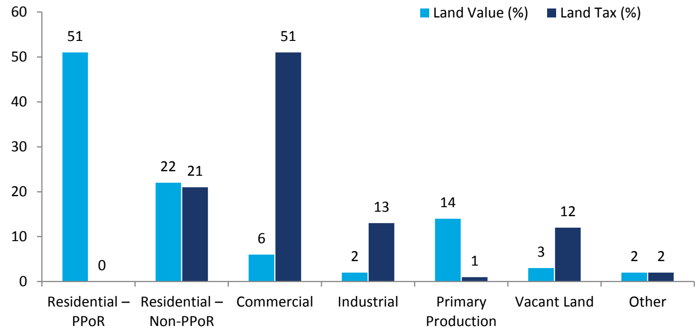
Valuation also occurs at a point in time and value is principally driven by issues such income and occupancy rates.

We believe there is no credible method to properly isolate and quantify the contribution made by an infrastructure project, let alone a proposed *future* infrastructure project, to an asset's land value. In this regard, it would also be very challenging to credibly determine the value baseline or benchmark against which any supposed increase in value would be assessed. Conversely, in progressing with value-capture funding, would governments be willing to compensate land-owners where infrastructure (or lack-thereof) decrease its value? It is also critical that 'income' isn't conflated with 'value' which can often be the case and lead to flawed perceptions that some companies have a 'capacity to pay' additional taxes and charges on their land.

#3 – SHOPPING CENTRES ALREADY PAY DISPROPORTIONATELY HIGH TAXES

Shopping centres already pay disproportionately higher taxes than other types of land and property as a result of progressive tax rates. The *Victorian Fire Services Levy* commercial property rate, for example, is up to 7 times higher than the residential rate. Similarly, using South Australia as an example, commercial land also accounts for 6% of overall land value but 51% of land tax contributions in South Australia (as illustrated below).

South Australia FY14 Private Land Tax Composition
Contribution to total by Land Usage



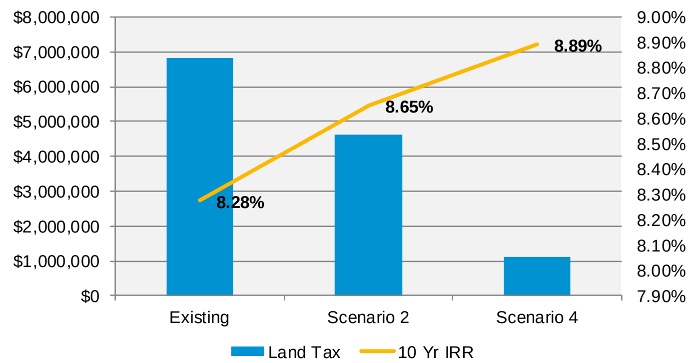
Source: RevenueSA / SCCA Research

Meanwhile, Principal Places of Residence (PPoR) land value accounts for 51% of total land value, but makes no contribution as it is exempt from land tax, and Primary Production land, which accounts for 14% of land value, makes a 1% contribution. It would be unfair to further tap into commercial land value without capturing the value from land and property that currently makes no contribution (ie. broadening the land tax base).

#4 –LAND-BASED TAXES CAN DISTORT INVESTMENT AND REDUCE ASSET VALUE

Commentary about land-based taxes theorise that they are efficient insofar as land is immobile. The reality is very different. In addition to numerous existing exemptions for certain land (noted above), land-based taxes are not-benign from an investment perspective (particularly when the same land is being taxed many times over). As illustrated below, three different modelled scenarios we undertook for a recent tax review identified that different land tax scenarios have a different impact on investment (Internal Rate of Return or IRR).

Hypothetical investment analysis



Further, additional or increased taxes can impact Net Operating Income (NOI) and subsequently a shopping centre's asset value. Based on a capitalisation rate of 6.25%, every $1 million increase in a new tax could result in a $16 million decrease in asset value. We doubt this would be an intended consequence of any possible value capture model.

Some jurisdictions are also already higher taxing than others (e.g. South Australia, Victoria, NSW from a land tax perspective) which means the 'starting point' needs to be properly considered. Further, shopping centres are unique as land tax cannot be recovered as an outgoing from tenants in Victoria, South Australia and Queensland. How 'value-capture' would impact retail tenants also needs to be considered.

#5 – DEVELOPERS ALREADY MAKE INFRASTRUCTURE CONTRIBUTIONS + INFRASTRUCTURE SHOULD BE LINKED TO DEMAND: NOT VALUE

Our members already make contributions to infrastructure at the development and redevelopment stage, and there is generally and rightly a nexus with infrastructure demand generation. As an example, the Queensland system imposes an infrastructure levy on shopping centres of $180/square metre of additional retail space. For a typical average Queensland development of 20,000 square metres of space - this is a contribution of $3.6 million. As shopping centres are the only asset class that generally expand over time (e.g. Chadstone shopping centre in Melbourne has had over 30 stages of expansion), they can be required to contribute to infrastructure many times over.

Infrastructure funding should be linked to infrastructure demand created by an asset and its users (e.g. vehicle movements on a road); not value. That this link could be severed under a value-capture arrangement is a cause for concern, and could also give rise to an unlevel playing field between competitors. Why should two similarly sized shopping centres – with a similar demand on infrastructure – but with different land-values be levied differently to contribute to infrastructure? This would not be a fair or equitable outcome.

#6 – 'VALUE-CAPTURE' CATCHMENT LACKS ALIGNMENT WITH ACTUAL USERS /BENEFICIARIES

Value-capture proposals can also suggest that properties surrounding (e.g. within a 400m 'walking' catchment) a piece of infrastructure are the ones that principally benefit and hence, whose value may be captured. However this approach would fail to recognise the real catchment of users of that infrastructure, such as a train station (entries and exits). For example, we have analysed properties around a Sydney suburban train station (the busiest in the AM peak in terms of entries and exits) and estimate around 2,000 land-holdings within a 400m radius. However, official statistics paint a much broader 'user and beneficiary' picture of that infrastructure, including 9,000 entries and 5,000 exits in the AM peak (6:00am-9:30am), 2.44 million tickets issued per annum, and a modal split of around 30% that use rail to get to work at that location. This location is also subject to a parking space levy, which is used to fund public transport infrastructure. How could it be fair that only 2,000 land-holdings surrounding the station could be levied to fund infrastructure, including where some of those properties already pay a parking space levy and further, while other properties (and actual users) would not be captured and levied?

#7 – FAIR'S FAIR – GOVERNMENTS SHOULD PAY FAIR VALUE

Our members can host government infrastructure on their land such as bus interchanges (and even libraries) which is generally imposed on them by governments and then based on a license with negligible or nominal rental income. At the expiration of a license, a recent attempt by a shopping centre to place such an arrangement on more commercial 'value' terms (e.g. the same land could be used as a drive-in restaurant or car-wash) was resisted and rejected by a government. It can be the case that governments like to not only tax value, but then deprive an asset owner the chance to increase their value by imposing 'take it or leave it' terms.

#8 – GOVERNMENTS SHOULD REMOVE REGULATORY BARRIERS TO VALUE

Various governments impose regulatory barriers and duplication which limits the value potential of shopping centres. Some of these have been cited ad nauseam in various reviews, such as Productivity Commission reviews and the recent Harper Competition Report, but with no real commitment or pathway to resolve the issues. These include trading hour restrictions, retail floor space caps, real estate licensing, retail lease legislation and restrictions on truck delivery times. These issues should be addressed in company with any value-capture scheme design.

#9 – OVERSEAS EXAMPLES ARE JUST THAT: OVERSEAS EXAMPLES

We are well aware of overseas examples that are often referenced in value-capture discussions such as the London Crossrail Levy (LCL).

While possibly instructive in concept, there can be vast differences in the valuation and taxation process – or scheme design - that need to be properly considered. Similarly, industry regulation and barriers can be different between jurisdictions.

#10 – OTHER FUNDING OPTIONS

We hope that other funding options are being considered in the context of value-capture funding. While a broader, simpler and fairer approach could include capturing 'value' currently exempt from land tax (e.g. Principal Place of Residence) it could also include road-user pricing which was recently recommended by the Harper Report into Competition Policy and accepted in-principle by the Federal Government. In addition, public transport fares should be part of the funding considerations to ensure that actual users and beneficiaries are making a direct contribution.

3 NEXT STEPS: ANALYSIS + CONSULTATION

There is an obvious need for detailed analysis and consultation on value-capture funding, particularly with potentially affected stakeholders.

The SCCA respectfully urges the Government to ensure a considered approach to the issue, which specifically notes the current taxation basis for shopping centres and their retailers whereby value is already captured and taxed multiple times.

We believe that the current tax burden on shopping centres should not increase under the value-capture model or be disproportionate to the contribution made by other properties or users and beneficiaries of infrastructure.

The SCCA has more detailed information on the 10 critical issues raised above and would be pleased to discuss them further.

4 ABOUT US

The Shopping Centre Council of Australia (SCCA) represents Australia's major shopping centre owners, managers and developers. Our members own and manage shopping centres from the very largest ('super-regional') centres to the smallest ('neighbourhood') centres in cities and towns in every state and territory.

Our members are AMP Capital Investors, Blackstone Group, Brookfield, Charter Hall Retail REIT, DEXUS Property Group, Eureka Funds Management, GPT Group, ISPT, Ipoh Management Services, Jen Retail Properties, JLL, Lancini Group, Lendlease Retail, McConaghy Group, McConaghy Properties, Mirvac, Perron Group, Precision Group, QIC, Savills, SCA Property Group, Scentre Group, Stockland and Vicinity Centres.

5 CONTACT

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